

# **SAN LUIS OBISPO COUNTY ASSESSMENT PRACTICES SURVEY**

**MARCH 2001**

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## **CALIFORNIA STATE BOARD OF EQUALIZATION**

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April 10, 2001

TO COUNTY ASSESSORS:

No. 2001/020

SAN LUIS OBISPO COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the San Luis Obispo County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The assessor was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report, the county assessor's response, and the BOE's comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

During June, July and August of 1999, the County Property Tax Division conducted the fieldwork for this survey of the San Luis Obispo County Assessor's Office. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Dick Frank, San Luis Obispo County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

We invite your comments and exchanges of information, for we feel that these surveys can only be helpful in a mutually cooperative atmosphere.

Sincerely,

Richard C. Johnson  
Deputy Director  
Property Taxes Department

RCJ:jm  
Enclosure

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## INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the San Luis Obispo County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increased the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the San Luis Obispo County Grand Jury, and the Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Dick Frank, San Luis Obispo County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

## SCOPE OF SURVEY

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, the survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties imposed upon the assessor, and the volume of assessing work as measured by property type. In addition, Revenue and Taxation Code section 75.60<sup>1</sup> requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample, or by determining through objective standards, defined by regulation, that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in the Appendix.

Our survey of the San Luis Obispo County Assessor's Office included a review of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in San Luis Obispo County having information relevant to the property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether significant assessment problems exist, as defined by Property Tax Rule 371.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on our analysis that indicates statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

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<sup>1</sup> All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

## EXECUTIVE SUMMARY

This report not only presents recommendations for improvement but also attempts to note those program elements that are particularly effective and efficient. It also highlights areas of improvement since our last assessment practices survey, and it acknowledges the implementation of previous recommendations.

- In our 1996 Assessment Practices Survey, we made nine recommendations for improving the assessor's operation. Of those recommendations, the assessor implemented three but chose not to implement the remaining six.
- The assessor is certified as an appraiser for property tax purposes and has met current training requirements, as has his permanently-certified staff.
- The assessor has participated in the State-County Property Tax Administration Program (PTAP) since 1996. PTAP funds have been used for additional staffing, data processing equipment, and development and implementation of various automated systems within the assessor's office. The assessor has met all contractual obligations of PTAP as verified by the auditor-controller.
- The assessor's system for tracking and monitoring workload is effective. No problems were found with the administration of assessment appeals, supplemental, historical property, or change in ownership assessments. New construction assessments are properly processed, assessed, and documented.
- With regard to business property, we found no significant problems in the processing of business property statements, the valuation of leased equipment, tenant improvements, or direct billing. Historical aircraft and certificated aircraft are handled properly.
- The assessor's escape assessment letter is not in compliance with section 531.8.
- The assessor should not be requiring property owners to supply comparable sales information prior to allowing them to file a request for informal review.
- The assessor should ensure that the California Land Conservation Act (CLCA) questionnaire mentions all potential compatible use income.
- The assessor is not assessing all qualifying taxable possessory interest uses at the county fairgrounds nor issuing escape assessments as required by law.
- We recommend the assessor review his assessment procedures for taxable government-owned property and comply with article XIII section 11 of the California Constitution.
- The assessor should develop written procedures for appraising vessels, animals, aircraft, equipment, and review of declines in value.

- The assessor's petroleum production program has an error that may improperly calculate petroleum production declines. Petroleum assessments should be based on only those reserves that are recoverable with reasonable certainty. An additional adjustment is being made to the allocated value of well improvements; the correct procedure is to recognize the cost to cure the defects as an expense in the cash flow. And, the assessor should review his practices regarding scheduling of abandonment expenses. The timing of these expenses should be matched to the economic life of the property.
- Mineral property working capital is being treated as an allocation from the total mineral property value; the correct procedure is to account for it in the cash flow as an initial investment in the property.
- The business property division was able to complete an additional 92 nonmandatory audits during the 1998 calendar year due to PTAP funding and the two auditor-appraiser trainees it provided. An amount in excess of \$13,640,000 in value was added to the roll as a result of these non-mandatory audits.
- The factors in Assessors' Handbook Section 581 should be used without an arbitrary minimum percent good.
- In our previous survey, we suggested that the assessor reclassify underground fuel tanks. This has been implemented. Underground tanks are now classified as fixtures.
- The assessor has changed assessment procedures for agricultural equipment, but he should refrain from using a minimum percent good of 5 percent when assessing computers.
- In spite of our previous recommendation to discontinue netting audit escapes and refunds, we found the practice continues.
- The assessor has developed and implemented a computerized boat depreciation schedule based on values from boat valuation guides.
- The assessor complies with statutory provisions by mailing the *Annual Report of Boarded Racehorses* and the *Annual Racehorse Tax Return* to taxpayers by December 15.
- In our prior survey we recommended that the assessor classify and enroll manufactured homes as personal property. We found that manufactured homes are still being enrolled as real property improvements on the secured roll.
- Use of manufactured home value guides is not consistent. And, we recommend that manufactured home assessments be reviewed annually for declines in value.
- We recommend a *Change in Ownership Statement* be sent to any manufactured home owner who does not respond to the *Information Request for Manufactured Housing*.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.



- We found no significant assessment problems as defined in Property Tax Rule 371. Accordingly, pursuant to section 75.60, San Luis Obispo County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

<b>RECOMMENDATION 1:</b>	Request that the county counsel advise the board of supervisors to revise the county's disaster relief ordinance to reflect the current lien date.....	14
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## **RESULTS OF 1996 SURVEY**

### ***Forms***

In the 1996 survey, we recommended that references to the Revenue and Taxation Code and penalties for non-response be removed from the assessor's lease information request letter because it is not a BOE-prescribed form. The assessor has now removed the above references from the request letter.

### ***Supplemental Assessments***

At the time of the last survey, the position designated to process the unsecured supplemental assessments was vacant for nearly a year. During this time, supplemental assessments were not being issued. We recommended that the unsecured supplemental assessments be enrolled in a timely manner. Unsecured supplemental assessments are now enrolled timely.

### ***Possessory Interest***

We recommended that the assessor recognize all possessory interest changes in ownership, including tenancies with terms of one year or less. Amendments to section 61, effective January 1, 1997, now provide that a renewal or extension of a possessory interest during the reasonably anticipated term of possession does not constitute a change in ownership. At this time the assessor is correctly assessing taxable possessory interests.

In addition, we recommended that all qualifying possessory interests at the county fairgrounds be assessed. We found that there continues to be several private uses of the fairgrounds that are ongoing, beneficial, independent, and exclusive that have not been assessed.

### ***Manufactured Homes***

Assessment of manufactured homes located in rental parks was inconsistent. In several cases, the roll value was carried forward, and in others, the value enrolled was the reported sales price less a standard percentage to account for site value. We recommended that sales prices from recognized manufactured home value guides be considered. We found that assessment practices have not changed and that recognized value guides are not being consistently considered.

Also, we recommended that the assessor classify and enroll manufactured homes as personal property. We found that manufactured homes are still being enrolled as real property improvements.

### ***Section 11 Properties***

We found that the assessor was enrolling agricultural possessory interest assessments located on section 11 properties, and we recommended that this not be done. In our current survey, we found that the practice still exists.

***Escaped Business Property (netting)***

In multiple-year audits there are often underassessments resulting in tax liabilities for some years and overassessments resulting in tax refunds in another. At the time of the 1996 survey, the assessor's staff offset assessment differences against each other and enrolled the net assessment difference in the most current year. There is no legal provision for assessment offsets. This practice continues and is again listed as a recommendation.

## OVERVIEW OF SAN LUIS OBISPO COUNTY

San Luis Obispo County is situated half way between San Francisco and Los Angeles on the California Central Coast. San Luis Obispo is located south of Monterey County, west of Kern County, and north of Santa Barbara County. The inland portion of the county is dominated by agriculture with ranches, farms, and vineyards. One of the more noted landmarks of the county is Hearst Castle.<sup>2</sup>

The following chart displays pertinent information from the 1997-98 assessment roll. Most of the information was taken from the BOE publication, *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*, 1997-98 dated June 1999.

Property Type	Number of Assessments in County	Enrolled Values
Residential	97,077	
Miscellaneous (includes Manufactured Homes)	18,314	
Rural	5,059	
Commercial/Industrial	8,839	
Total Secured Roll	129,289	\$18,540,731,000
Total Unsecured Roll (personal property except manufactured homes)	24,403	585,701,000
Total Roll	<u>153,692</u>	<u>\$19,126,432,000</u>

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<sup>2</sup> Chamber of Commerce of San Luis Obispo off the county internet web site.

## ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of an assessor's office that affect both the real and business property assessment programs. We reviewed the budget and workload, the State-County Property Tax Administration Program (PTAP), the training and qualifications of appraisal staff, procedures manuals, the computer system, the preparation and presentation of assessment appeals, the low-value exemption resolution, disaster relief procedures, roll changes, the supplemental assessment program, and standards and quality assurance.

### ***Budget and Workload***

There are 80 employees in the San Luis Obispo County Assessor's Office including the assessor and two chiefs.

As of July 1, 1997, the assessor added 8 real property appraisers, 1 auditor-appraiser, and 2 support staff with monies from the Property Tax Administration Program (PTAP). Permanent positions resulting from PTAP funding were ½ appraiser, ½ auditor-appraiser, and ½ technician.

For the fiscal year 1997-98, the San Luis Obispo County Assessor prepared an assessment roll with 153,692 assessments on an approved budget of \$3,501,482.<sup>3</sup>

### ***State-County Property Tax Administration Program***

Section 95.31 provides that, upon recommendation of the county assessor, and by resolution of the county board of supervisors, any eligible county may elect to participate in the State-County Property Tax Administration Program (PTAP). A county may apply for a loan to enhance its property tax administration system, reduce appraisal backlog resulting from new construction and changes in ownership, and maximize value enrollment capabilities. Under the terms of the contract the county may repay the loan by meeting performance measures that are enumerated in the contract. The program was originally enacted for a three-year period: fiscal years 1995-96 1996-97, and 1997-98. In 1997 legislation, it was extended to the 2000-01 fiscal year.

In Resolution 95-465, dated November 21, 1995, San Luis Obispo County elected to participate in PTAP. On February 6, 1996, the County of San Luis Obispo and the State Department of Finance (DOF) entered into an agreement for a PTAP loan of \$736,288 for each year. A second contract dated February 2, 1999, provided a loan in the same amount for fiscal years through 2000-01.<sup>4</sup> In exchange, San Luis Obispo County agreed to use the loaned funds to enhance its property tax administration program while agreeing to maintain staffing and funding levels equal to or exceeding those of the 1993-94 fiscal year.

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<sup>3</sup> 'A Report of Budgets, Workloads, and Assessment Appeal Activities in California Assessors' Office,' 1997-98, dated June 1999.

<sup>4</sup> The contract provides that receipt of funding for fiscal year 1998/99 will be within 30 days of contract approval by both parties.

San Luis Obispo County met the contractual obligations of the PTAP agreement. The assessor properly reported to the DOF, and the auditor-controller verified the report and certified that the performance measures specified in the contract had been met.

### ***Training***

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours of annual training if an appraiser holds an advanced certificate.

We found that all appraisers are appropriately certified. All appraisals of mandatory accounts are performed by auditor-appraisers certified by the BOE. The assessor is certified and has met the training requirements, as has his certified staff.

### ***Procedures Manuals***

Procedures manuals provide policy guidelines, specific standards, and uniform procedures to assist the assessor's staff in the preparation of audit and appraisal reports, as well as other technical work products. Current manuals help ensure that the work is consistent with approved policies and practices. Separate operations manuals for each division provide special policies and procedures that relate to the specific program responsibilities of that particular division.

The agricultural preserve appraisal procedures manual is reasonably complete but needs to be updated. This manual has not been revised to reflect the legislative lien date change to January 1. The last revision date listed was February 7, 1995. We suggest that the agricultural preserve appraisal procedures manual be updated.

### ***Computer Systems***

In 1984, the assessor designed a mainframe-based computer system that contains secured, unsecured, and supplemental roll information, and comparable sales data. Beginning with fiscal year 1995-96, PTAP funds were used for data processing equipment, additional staffing, and development of various automated systems within the assessor's office.<sup>5</sup>

#### **Network and Personal Computers**

In mid-1996, a network-based computer system was installed. The number of personal computers in the assessor's office increased from 12 to 83 at the time of our fieldwork. The network is for applications, property attributes, and appraisal inquiry.

#### **Assessor's Property System**

In 1996, the assessor began developing a new property system. It has two functions: residential attributes and appraisal inquiry.

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<sup>5</sup> Funds provided through PTAP agreement were also to be used to reduce backlogs in workload.

The attribute system is for input and collection of a property's attributes, and image/photo. It contains general information (ownership, situs), detail information on land attributes (land use, wells or utilities, and access), and improvement attributes (architecture, class/shape, age, roof type, room inventory and special features). The attribute system is limited to residential properties. The assessor plans to expand it to include commercial and industrial properties.

The appraisal inquiry portion of the property system is for accessing or viewing information or property attributes. It enables the user to view and print property information. A digital image (photo) of the subject is in the upper right corner of the main view screen. Users can also view photos in the property catalog (i.e., pool and gazebo) and can print property images.

### Workload Tracking System

The assessor uses a computer system for tracking workload, referred to as the 'trigger system.' For activities that require future monitoring, such as values reduced due to damage or decline in value, another trigger code is entered to ensure annual review. The assessor's system for tracking and monitoring workload is effective.

### Sales System Project

The assessor's sales system is on the mainframe. The assessor is developing a sales system for use on the network that will interface with the recently developed property attribute system. The goal is to achieve a more user-friendly on-line appraisal system and to speed up the valuation process. The system will incorporate some of the following features:

- Digital images of both subject and comparable properties, which will be included on both the on-line and hard copy appraisal worksheet.
- Basic mathematical calculations on the on-line appraisal worksheet that will eliminate computation errors.
- Initial rankings of comparable properties, thus speeding up the current search process.
- Standard search criteria.
- An on-line history of all completed appraisals.
- On-line and hard-copy report functions.

### ***Assessment Appeals***

The assessment appeals function is required by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 of the Revenue and Taxation Code are the statutory references to guide county assessment appeals boards in the appeals function. Government Code section 15606(c) directs the Board of Equalization (BOE) to prescribe rules and regulations to



govern local boards of equalization, and the BOE has adopted Property Tax Rules 301 through 326 (sections 301 through 326 of Title 18, Public Revenue, California Code of Regulations).<sup>6</sup>

The San Luis Obispo County Board of Supervisors adopted an ordinance authorizing the establishment of an assessment appeals board on May 28, 1970. At present, the county has one assessment appeals board that consists of three members and two alternates appointed by the board of supervisors. The appeals board is scheduled to meet on the third Friday of each month.

In San Luis Obispo County, the number of assessment appeals filed for 1998-99 declined from prior years. The chart below illustrates the number of appeals filed, the number of stipulations agreed to, and appeals withdrawn for each of the last five years.

Year	Appeals Filed	Withdrawals	Stipulations
94/95	263	204	12
95/96	229	159	15
96/97	221	178	1
97/98	183	138	2
98/99	97	64	0

During our examination of the program for dealing with assessment appeals, we reviewed 20 appeal presentations and found all of them to be well documented and complete, and the values reasonable.

### ***Low-Value Property Exemption***

Section 155.20 authorizes the county board of supervisors to exempt real property with a base year value, and personal property with a full value, so low that, if not exempt, the total amount collected in taxes, special assessments, and any applicable subventions is less than the cost of assessing and collecting them.

San Luis Obispo County has no low-value exemption resolution or ordinance. Examination of properties with low values indicated that these properties were being enrolled.

### ***Disaster Relief***

Section 170 authorizes a county board of supervisors to adopt an ordinance that would provide property tax relief to assessees whose properties have been damaged or destroyed without the assessee's fault. The ordinance may be made applicable to a major misfortune or calamity within a region that has been declared a state of disaster by the Governor, or to any misfortune or calamity.

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<sup>6</sup> All references to Property Tax Rules are from Title 18, Public Revenue, California Code of Regulations.

Property tax relief is available to the owner of any taxable property that suffers damage exceeding \$5,000 in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restoration of value for the affected property. To obtain relief under this ordinance, the assessee must make a written application to the assessor requesting reassessment.

The San Luis Obispo County Board of Supervisors adopted a misfortune and calamity ordinance on January 17, 1978. San Luis Obispo County has suffered eligible calamities fairly regularly over the years. The most recent large-scale calamity was the 'Highway 41 Fire' in 1996 in which over 50 properties were damaged.

Appraisal records for those eligible calamity properties were well documented. Proper letters, applications, forms, and follow-ups were included. Reports from the California Department of Forestry (CDF), local fire or police departments, newspaper articles, field inspections, and other sources were used to verify damage to properties. CDF sends all fire reports to the assessor's office. Proper procedures are being followed throughout the county. The assessor's forms are also in compliance with statutory provisions.

Once a disaster relief application is received, it is entered into the system and forwarded to the appropriate appraiser who approves or denies the application. If denied, the taxpayer is informed and the application is attached to the appraisal record with no further action taken. We found that there is no central file or listing of properties for which an application for disaster relief had been denied.

During the processing period, the assessor's system keeps track of the damaged property until the repair process is completed.

**RECOMMENDATION 1:** Request that the county counsel advise the board of supervisors to revise the county's disaster relief ordinance to reflect the current lien date.

The county's disaster relief ordinance refers to March 1 as the date the owner of the property is liable for the taxes (lien date). This date changed to January 1 in 1997. We recommend that the assessor request that the board of supervisors revise the ordinance to reflect the lien date change.

### ***Assessment Roll Change Procedures***

Pursuant to section 4831, roll changes or corrections can be made when an error or escaped assessment is discovered after the roll is closed. The change may be made any time after the roll is delivered to the auditor but shall be made, with a few exceptions, within four years of the assessment that is being corrected.

The San Luis Obispo County Assessor's Office processed 1,943 roll changes for the 1998-99 roll year. Of these, 1,426 were on the secured roll and 517 were on the unsecured roll.

We reviewed a number of secured and unsecured roll changes. Overall the assessor's roll correction system appears effective. We noted one problem with the notice of proposed escape assessment.

**RECOMMENDATION 2:** Cite the caption required by section 531.8 when providing taxpayers with a notice of proposed escape assessment.

When a proposed escape assessment, decrease in assessed value, or increase in assessed value occurs, the assessor's staff routinely mails out letters notifying taxpayers of the change. If a roll correction is generated for an escape assessment, section 531.8 requires that the notice sent to the taxpayer must prominently display the words NOTICE OF PROPOSED ESCAPE ASSESSMENT.

The assessor's form does not contain this caption. We recommend that the assessor make this change to his escape assessment letters in order to be in compliance with section 531.8.

### ***Supplemental Assessments***

Section 75.10 provides that whenever a change in ownership occurs or qualifying new construction is completed, the assessor shall appraise the property changing ownership or the new construction at its full cash value on the date the change in ownership occurs or the new construction is completed.

In San Luis Obispo County, supplemental assessments are computer-generated once the appraisal staff has completed a value change due to a change in ownership or new construction. These supplemental assessments are forwarded to the auditor-controller for issuance of the tax bills.

We reviewed a number of supplemental assessments and noted the prorations, tax bill amounts, time periods, and ownership tracking were done appropriately. The assessor's supplemental assessment program is accurate, efficient, and in compliance with statutory provisions.

### ***Standards And Quality Assurance***

Written valuation and review procedures are important components of an internal control system and promote uniformity and ensure accurate assessments. The San Luis Obispo County Assessor has comprehensive procedures for quality control. Real property appraisals undergo several levels of review.

Supervisors review all appraisals involving new construction and transfers. Appraisals by trainees and staff performing work in new areas receive a more thorough review. The chief of real property closely examines appraisals involving complex issues, and reviews all appeals, roll corrections, and adjustments for disaster relief. A supervisory review is conducted for all business property accounts. This review encompasses the validity of costs used as a basis for valuation, factors used, and proper classification.

A technical crew in the assessor's standards division also reviews all appraisals. The technical crew checks for mathematical accuracy and completeness of data. Staff ensures that new construction and transfers have a full narrative, and that the opinion of value is supported.

## ASSESSMENT OF REAL PROPERTY

The real property division is responsible for annually reviewing over 100,000 deeds, monitoring 931 California Land Conservation Act properties, and valuing over 13,000 properties for new construction. The current staff includes three supervising appraisers, three appraiser III's, five appraiser II's, and eight appraiser I's. In addition, they have several full time support clericals and technicians.

### ***Change in Ownership***

Section 60 defines a change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest. Section 50 requires the assessor to reappraise real property upon a change in ownership. Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office.

### ***Document Processing***

Staff at the San Luis Obispo County Assessor's Office review over 100,000 deeds yearly. We found that *Preliminary Change in Ownership Reports* (PCOR's) and *Change in Ownership Statements* (COS's) are effectively tracked and penalties are applied as required by sections 482 and 483.

### **Transfer List**

Section 408.1 requires the assessor to maintain, and make available for public inspection, a list of property transfers for the most recent two-year period. The type of information that should be included on the list is specifically outlined.

The assessor makes available for public inspection a microfiche list of real property transfers that occurred in the preceding two-year period. The transfers on this list are described by assessor's parcel number, recording date, document number, and selling price as indicated by the documentary transfer tax. The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed.

### **Section 63.1 and 69.5 Exclusions**

Section 63.1 excludes from change in ownership the purchase or transfer, on or after November 6, 1986, of the principal residence and the first one million dollars of other real property between parents and children when a claim is timely filed. This exclusion is commonly referred to as a *Proposition 58*.

Section 69.5 (a)(1) allows qualified homeowners 55 years of age or older to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly

constructed within the same county on or after November 5, 1986, provided a claim is timely filed. This exclusion is commonly referred to as a *Proposition 60*.

We found that the assessor's staff is verifying eligibility, tracking, and processing *Proposition 58* and *Proposition 60* claims effectively.

### Legal Entity Ownership Program

Since 1983, the BOE's Legal Entity Ownership Program (LEOP) staff has informed county assessors of changes in control of legal entities owning real property in California. Typically, these types of changes in control are not recorded at the local county recorder's office and may go undiscovered by county assessors without LEOP notification.

We found no errors pertaining to identification and change in ownership enrollment. We found that the assessor's legal entities staff is processing LEOP notices and identifying changes in control.

As of July 1, 1998, the assessor had a backlog of 297 reappraisable transfers. To help reduce this backlog, the assessor is using funds provided by the State-County Property Tax Administration Program.

### New Construction

Section 71 requires the assessor to appraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Most new construction activity is discovered from building permits issued by the seven cities in the county, the county planning department, and the county health department. Other discovery methods include business property statements, aerial photographs, news reports, and field inspections.

The following chart shows the level of new construction permit activity<sup>7</sup> in the past years:

	<u>94/95</u>	<u>95/96</u>	<u>96/97</u>	<u>97/98</u>
Number of permits worked	9,833	11,262	9,642	14,911

As of July 1, 1998 there was a backlog of 654 new construction events. The assessor is using funds provided by the State-County Property Tax Administration Program to help reduce this backlog.<sup>8</sup>

To complete our research, we sampled 40 new construction appraisals. Our examination included the permit handling process, the development of several cost studies by the assessor's staff, use of costs, real and business property coordination, discovery of escapes, factoring, and valuation of new construction. We found no significant assessment problems during our review of selected appraisals. Assessments of new construction in San Luis Obispo County appear to have been processed and documented properly.

<sup>7</sup> A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices: May 1996, May 1997, June 1998, June 1999.

<sup>8</sup> Letter to Department of Finance dated 12/14/98 and the 2/2/99 contract.

## ***Declines in Value***

Section 51 requires the assessor to value taxable real property at the lesser of its base year value, adjusted annually for inflation, or its current market value, as defined in section 110.

Whenever a property's current market value declines, for any reason, below its factored base year value, that lower value must be enrolled as the taxable value for the years of the decline. Any value enrolled as a decline-in-value requires annual review until the property's current market value exceeds the factored base year value. Then the factored base year value resumes as the taxable value. Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines.

There were approximately 14,000 properties identified as having a current market value below the factored base year value in San Luis Obispo County for the 1998-99 fiscal year. The assessor's computer system tracks existing declines in value by coding the property. This coding prevents the current market values from being indexed by the yearly inflation factor.

Staff appraisers are assigned to specific geographic areas and are responsible for the discovery and appraisal of all decline-in-value properties in their respective areas. The exception is commercial or industrial property where the commercial section staff handle decline-in-value reviews.

**RECOMMENDATION 3:** Delete from the *Decline in Value Application* the requirement that property owners supply comparable sales information when requesting a decline-in-value review.

When a property owner contacts the assessor's office requesting a review of his or her taxable value, the property owner is sent an information packet explaining options available to them.

In the information portion of this packet is the statement that the property owner has the responsibility to supply the assessor with supporting documentation to justify a reduction in taxable value. In the instruction portion of the application form is a request stating that if the applicant has information supporting a reduction in value, the applicant is to supply this information. However, in section 2 of the application the property owner is again instructed that 'For your application to be considered, you must provide sufficient data to support your opinion of value. Please provide information on recently sold properties that are similar to yours.'

While we agree that the assessor may ask for comparable sales information to assist the staff in the evaluation of the property, section 51 requires that the assessor enroll the lower of the factored base year value or current market value regardless of whether the information is supplied.

Letter To Assessors 92/63 states the BOE position that any property owner entitled to reduced property taxes should receive priority from assessors at least equal to their other responsibilities. The assessor has the obligation to inventory and process declines in value with the same diligence and resources expended on increases in value.

We strongly recommend that the assessor delete from the *Decline in Value Application* any requirement that the applicant supply comparable market data before the assessor's staff will consider a review of taxable value.

### **California Land Conservation Act**

An agricultural preserve contract is established between a landowner and the city or county, pursuant to the California Land Conservation Act (CLCA) of 1965. Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income, e.g., hunting, communication facilities, etc., and are assessed at the lowest of this restricted value, the current market value, or the factored base year value, as defined in article XIII A of the California Constitution. Sections 421 through 430.5 deal explicitly with the valuation of lands subject to agricultural preserve contracts.

For the 1998-99 lien date, San Luis Obispo County had a total of 931 CLCA contracts. These contracts comprised 3,528 parcels containing a total of 762,600 acres. We reviewed the assessor's CLCA program for adherence to statutory mandates and uniform treatment of taxpayers. The assessor has developed a computer program to annually recalculate all CLCA values as well as calculate values for properties that are in non-renewal status. The records were well documented and proper values were enrolled. The CLCA program does, however, have one area in which improvements can be made.

**RECOMMENDATION 4:** Revise the wording pertaining to compatible use income on the *Williamson Act Property Agricultural Data Record*.

Compatible use is defined in accordance with Government Code sections 51238.1, 51238.2 and 51238.3. Compatible use includes agricultural use, recreational use, or open-space use unless the board of supervisors or city council finds that such use is not compatible with the agricultural, recreational, or open-space use to which the land is restricted by contract. Failure to include compatible use income in the valuation of restricted properties may result in an underassessment.

The assessor's request for information letter for CLCA properties, *Williamson Act Property Agricultural Data Record*, has a section for information on hunting and recreational rights rented to others. The wording on the request for information questionnaire about leased or rented portions of the property is too limited in that it does not include wording specific to all potential compatible uses.<sup>9</sup> Expanding the questionnaire to cite examples of mineral or gas exploration rights, microwave antenna, or radio tower site leases could lead the property owner to offer information that had not been previously considered as relevant.

We recommend that the CLCA questionnaire wording be revised to include all potential compatible use income.

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<sup>9</sup> County of San Luis Obispo Williamson Act Property Agricultural Data Record Page 6.



***Taxable Possessory Interests***

A taxable possessory interest (PI) is established when a private right to exclusive use and possession is created in nontaxable, government-owned real property. Possessory interest assessments capture the value of a private possessor's right to use tax-exempt public property.

The assessor's possessory interest assessment program is well managed. Terms of possession are reasonable, rents are market derived, and documentation is good. The assessor conducts an aggressive discovery program that regularly contacts 45 government agencies that own property in San Luis Obispo County. As a result, there are 1,080 separate possessory interest assessments on the 1998-99 roll. There are, however, areas in which the possessory interest program could be improved.

**RECOMMENDATION 5:** Assess all taxable possessory interests at county fairground facilities.

In our previous survey, we recommended that the assessor review all private uses at the San Luis Obispo County Fairgrounds and assess all those uses that were recurring, beneficial, exclusive, and independent as taxable possessory interests. At that time, we found that the assessor was enrolling only two assessments at the fairgrounds, but there were several qualifying users that were not being assessed. During our current survey, we again found only two fairground assessments enrolled. The assessor considers all other uses too infrequent or nonexclusive to be assessable.

We found that there are a number of private uses of the Mid-State Fairgrounds in Paso Robles that warrant assessment. Our discussion with the fairground management indicated a number of users that have had ongoing and beneficial use for a number of years. We also found several recurring events held at the fairgrounds throughout the year that may qualify as taxable possessory interests.

We again recommend that the assessor enroll all qualifying taxable possessory interests at the county fairgrounds.

***Taxable Government-Owned Property***

The Constitution of the State of California exempts from taxation property owned by local governments. However, article XIII, section 11 of the California Constitution provides that properties owned by government agencies but located outside the agency's boundaries are taxable, if the property was taxable at the time of its acquisition. Such properties are commonly referred to as Section 11 properties.

**RECOMMENDATION 6:** Refrain from assessing agricultural possessory interest assessments on Section 11 properties in accordance with article XIII of the California Constitution.

In our 1996 survey, we discovered that the assessor was enrolling agricultural possessory interest assessments located on Section 11 properties. This practice still exists. Article XIII, section 11(f) provides that: 'Any taxable interest of any character, other than a lease for agricultural purposes and an interest of a local government, in any land owned by a local government that is subject to taxation pursuant to section 11(a) of this article shall be taxed in the same manner as other taxable interests.' Section 11(f) prohibits the enrollment of agricultural possessory interests.

We again recommend the assessor refrain from assessing agricultural possessory interests on Section 11 lands.

### ***Water Company Property***

Water company properties assessed on local assessment rolls may be municipal systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water company associations.

There are five private water companies, two regulated, and three unregulated in San Luis Obispo County. The assessor uses CPUC annual reports to compute the market value of regulated water companies. The market value of unregulated private water companies is based on replacement cost less depreciation.

All 192 mutual water companies in San Luis Obispo County limit service to the stockholders and members. The assessor is not separately assessing mutual water company property. Currently the assessor is effectively tracking 197 water companies and systems.

### ***Timeshares***

#### **Valuation**

Timesharing is a system of sharing ownership in a vacation home, condominium, campground, etc. in which each of the owners may occupy the unit for a specified duration and time of year. When a timeshare is purchased, the sale price typically includes nonassessable items, such as personal property, vacation exchange rights, club memberships, and prepaid expenses. These items are nontaxable and should not be considered in the valuation process.

The value of timeshares is typically dependent on the season or time of year purchased. For example, a timeshare during the winter at a ski resort would be the high season, the summer at a ski resort would be the low season.

There is one timeshare development in San Luis Obispo County; it has approximately 6,600 timeshare units. Originally built as a hotel in the late 1960's, the units were rehabilitated and remodeled in 1989, and units were added in the late 1980's and early 1990's. All the units have ocean views. There is no seasonal influence reflected in their valuation. All timeshare periods are considered of equal value.

There are no written procedures for appraising timeshares. All timeshares are appraised by one supervising appraiser. Comparable sale prices are discounted 50 percent for marketing expenses. These marketing expenses include personal property and non-real property items.

A use code is used to identify the type of timeshare unit. Individual appraisal records typically contain a top sheet, a summary sheet, and a copy of the deed. All current sales are analyzed to determine annual assessed values for each unit type. We found timeshare assessment procedures to be reasonable.

### ***Cable Television Property***

The appraisal of a cable television system encompasses many property classes and types. There are three property types contained in each cable television system. Those property types are land, improvements (including fixtures), and personal property.

The San Luis Obispo County Assessor assesses three cable television companies. Business personal property and fixtures are valued by replacement cost less depreciation and the possessory interests are valued using the income approach. We found that appraisal files sufficiently document the income capitalized, term of possession, and the capitalization rate. When a change in ownership occurs, the assessor properly establishes a new base year for the possessory interest.

### ***Mineral Properties***

#### **Petroleum Properties**

**RECOMMENDATION 7:** Correct the programming error in the petroleum production scheduling software.

Petroleum production, for most properties, follows a trend that is established over the life of the property and allows for easy prediction of future production. The program used by the assessor has an error that overrides the input parameters. The program overrides the decline rate entered by the appraiser with a rate of approximately 5.13 percent. For properties with a decline greater than 5 percent, reserves are overestimated.

Production forecasts are a critical component of any petroleum appraisal. The assessor should review production forecasts from prior years' appraisals and make the necessary roll corrections. We recommend the assessor either determine the source of the program error and have it corrected or acquire new software that will provide accurate forecasts based on the input parameters.

**RECOMMENDATION 8:** Assess only proved reserves.

Proved reserves are defined in Rule 468 as '...those reserves which geological and engineering information indicate with reasonable certainty to be recoverable in the future, taking into account reasonably projected physical and economic operating conditions. Present and projected economic conditions shall be determined by reference to all **economic** factors considered by knowledgeable and informed persons engaged in the operation and buying or selling of such properties, e.g., capitalization rates, product prices and operation expenses.' (Emphasis added)

On one property reviewed, the assessor has recorded and assessed reserves for a property that are six times greater than the economic production contained in its own cash flow. The overestimation of reserves affects the adjustments to the base year value calculations. A larger reserve base divided into the adjusted base year value for reserves decreases the depletion adjustment for the prior year's production. This will result in the adjusted base year value being higher than it should be. For most properties this will not be a problem as long as the fair market value of the property is lower than the Proposition 13 value.

We recommend that only proved reserves be assessed.

**RECOMMENDATION 9:** Appropriately recognize the condition of well improvements for petroleum properties.

The assessor makes an additional adjustment to the allocated value of the well improvements after determining the total property value by the income approach. This adjustment is made to allow for excessive obsolescence due to a lack of maintenance of the wells. While the assessor's method is proper for an appraisal using the cost approach, the additional adjustment to the allocated improvement value derived from the income approach is inappropriate. This method is used to determine the residual value of the mineral rights so that depletion can be estimated and the base year value adjusted. While the value of the improvements is reduced, the value of the mineral is increased.

The proper procedure in the income approach is to recognize the cost to cure the defects as an expense in the cash flows. This will provide the recognition of the condition of the well, which appears to be the assessor's goal. This is also the method that would most likely be used by a prospective buyer.

We recommend that the condition of well improvements for petroleum properties be correctly recognized.

**RECOMMENDATION 10:** Match abandonment expenses to the life of the property.

Assessors' Handbook Section 566 (AH 566), *Assessment of Petroleum Properties*, page 8-6, states that abandonment expenses should be accounted for in the cash flow analysis of a property and that it should not be assumed that funds for abandonment would be available after the economic life of the property has been reached.

The assessor's process of scheduling abandonment costs has understated the projected costs of these abandonments by placing some of these costs after the economic life of the property has been reached. These costs were also excluded from the cash flow analysis, since the assessor's program does not accrue expenses incurred after production has ceased. The assessor's method understates the expected expenses for the property and overstates the fair market value.

The assessor should review his practices regarding scheduling of abandonment expenses in the cash flow analysis. We recommend matching abandonment expenses to the economic life of the property.

### **Mining Properties**

San Luis Obispo County mines have produced sand, gravel, limestone, and gypsum. Several of these are still active.

**RECOMMENDATION 11:** Include working capital in the cash flow of mineral property appraisals.

Working capital is the additional investment in a property required to initiate and maintain a producing mine. The assessor treats working capital as an allocation from the total property value. This method incorrectly reflects the nature of working capital and results in underassessments of these properties.

The correct procedure is to account for working capital in the cash flow as an initial investment in the property. Changes to working capital requirements in subsequent years are treated as positive or negative cash flows depending on whether the property requires more or less investment in working capital. At the end of the property life, the working capital is returned as an additional cash flow from the property. Assessors' Handbook Section 560 (AH 560), *Assessment of Mining Properties*, pages 6-9 through 6-11, has additional information regarding working capital.

We recommend the assessor review his mineral property procedures and include working capital in the cash flow for mineral properties.

### ***Historical Property***

Section 439.2 requires the assessor to use specific valuation methods when calculating the assessed value of qualifying historical properties. Its purpose is to encourage the renovation and maintenance of historical properties throughout California by providing a property tax incentive to the owners of historical properties.

San Luis Obispo County has 19 qualifying historical properties. We found the assessor's historical property assessment procedures to be in compliance.

## ASSESSMENT OF BUSINESS AND PERSONAL PROPERTY

The business property division staff is responsible for annually processing about 8,300 business property statements, 750 leasing company statements, and 300 agricultural statements. They handle the processing of forms and assessments of over 14,000 boats and 450 aircraft. There are 3,500 business accounts that are on direct billing. They are also responsible for the completion of an average of 100 mandatory audits per year, and they completed an additional 92 nonmandatory audits during the 1997-98 fiscal year.

The current staff includes one supervising auditor-appraiser, two associate auditor-appraisers, two assistant auditor-appraisers, and two auditor-appraiser trainees. In addition, they have one full time clerical support staff member and additional clerical help during the processing season.

### ***Valuation of Business Property***

#### Equipment Index Factors

Taxable values of business equipment are typically derived from historical or original costs, through the use of price index and percent good factors.

Section 401.5 requires that the BOE issue information that, in the judgment of the Board, will promote uniformity in appraisal practices and in assessed values throughout the state. The BOE specifically complies with section 401.5 for business personal property by publishing Assessors' Handbook Section 581 (AH 581), *Equipment Index and Percent Good Factors*. Price index factors and percent good factors are published annually for use in computing current market value estimates from acquisition costs of machinery and equipment. Accurate assessments of equipment depend on the proper choice and application of these factors.

**RECOMMENDATION 12:** Use the BOE-recommended equipment index and percent good factors without establishing an arbitrary minimum percent good.

The assessor combines the AH 581 price index and percent good factors into a valuation factor, which is used to value machinery and equipment. This factor is properly applied to the cost of machinery and equipment until the valuation factor reaches 25 percent. Once the 25 percent level is reached, it is established as the minimum percent good and is applied to all reported costs in the remaining years. The 25 percent minimum is used for all types of machinery except construction and agricultural equipment and machinery.

Index factors recognize items such as price changes and the effects of technological progress, and are intended to reflect the price of a replacement. The percent good factors are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives. The percent good factors contained in the handbook are based on the premise that these types of properties lose value as they age.

When valuing property, it is necessary for appraisers to analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust the normal percent

good factor to reflect the deviation. However, arbitrarily establishing minimum values is not an acceptable appraisal practice. We recommend that the assessor discontinue the practice of limiting valuation factors to an arbitrary level.

### Service Station Fixtures

In our prior survey, we suggested that the assessor reclassify certain service station fixtures such as underground tanks. In the past, they were often classified as structural items. This procedure has been corrected and underground tanks are now classified as fixtures.

### Computer Calculated Values for Agricultural Equipment

We found that the assessor now sends a listing of previously reported equipment to the taxpayer and requests that updates be made, including a notation as to whether equipment is new or used. This change ensures that assessment procedures follow those recommended in AH 581.

### Computers

In order to promote uniformity in appraisal practices and assessed values, the BOE has issued separate valuation tables specifically for computers. Computers and valuation factors are categorized into three groups, small, mid-range, and mainframe.

**RECOMMENDATION 13:** Assess computers using the BOE's recommended valuation factors as intended.

We found that the assessor uses the BOE's recommended valuation factors for computers with one exception. The assessor uses a minimum percent good factor of 5 percent. We recommend that the assessor assess all computers by using the BOE's valuation factors as intended.

### ***Direct Billing Program***

The San Luis Obispo County Assessor had approximately 3,500 accounts on direct billing for the 1998-99 assessment roll. Business, apartment, or agricultural accounts having a full cash value of \$50,000 or less are eligible for direct billing. The aggregate value of a direct-billed account with multiple locations must not exceed \$100,000. To be directly billed, the assessee must have filed a business property statement the last two lien dates. Field inspections are conducted annually to ensure the entity is in business and to verify the direct billing assessment.

The assessor notifies assessee of proposed values on direct-billed accounts. If the proposed valuation is disputed, a business property statement is sent to the assessee for completion. The direct-billed assessment remains constant for three years. In the fourth year, the assessee is sent a business property statement. Taxpayers with direct-billed accounts are required to complete a property statement every four years.

### ***Property Statement Processing***

Section 441 requires each person owning taxable personal property having an aggregate cost of \$100,000 or more for any assessment year to file a signed *Business Property Statement* (BPS),

Form 571, annually with the assessor. Annual property statements form the backbone of the personal property assessment program. These statements cover a wide variety of property types, including businesses, agriculture, boats, and aircraft.

We found that the assessor has implemented the suggestions from our 1996 survey. The computer-generated equipment inventory list is now programmed to perform the calculations for agricultural business property. Appraiser trainees now handle the processing of the business property statements.

We reviewed the assessor's procedures and sampled a large number of business property statements. We examined leased equipment tracking and valuation, tenant improvement coordination, and the review process. We found no problems in the processing of property statements. Property statements had the appropriate signatures and the calculations were accurate.

### ***Audit Program***

#### **Mandatory Audits**

Section 469 requires an audit of the books and records of businesses at least once every four years when locally assessable trade fixtures and tangible personal property have a full cash value of \$300,000 or more for four consecutive years. These are known as mandatory audits.

The mandatory audit program includes 390 accounts in the four-year cycle. The staff averages 100 audits a year. There were 83 audits completed during the 1998 audit cycle. The audit staff keeps the mandatory audit requirements current.

The audits we reviewed appeared to be of good quality with proper documentation, audit checklists, and clear, concise narratives.

#### **NonMandatory Audits and Arbitrary Assessments**

Arbitrary assessments (estimated assessments) are made in accordance with section 501 when a taxpayer fails to comply with any provision of law for furnishing information required by sections 441 and 470. Section 501 directs the assessor, based upon information in his possession, to estimate the value of the property and promptly assess the property.

In our previous survey, we suggested auditing or visiting taxpayers that fail to file business property statements for three or more consecutive years. Two appraiser-trainee positions funded through PTAP were added to do selected nonmandatory audits and to review arbitrary assessments. With these two new positions, 92 nonmandatory audits were completed from January 1, 1998 through December 5, 1998. An amount in excess of \$13,640,000 in value was added to the roll as a result of these nonmandatory audits.



## Offsetting

In our prior survey, we recommended that the assessor revise his practice of netting audit escapes and refunds. Our recommendation has not been implemented.

**RECOMMENDATION 14:** Follow statutory requirements when enrolling escape assessments and reducing overassessments.

In a multiple year audit, there are often underassessments resulting in tax liabilities for some years and overassessments resulting in tax refunds in others. The assessor offsets assessment differences and enrolls the net assessment difference in the most current year.

There is no statutory authority for offsetting underassessments and overassessments from different years. Rather, section 533 allows the offset of tax refunds against tax liabilities, not assessments. This section provides in part that:

'If the assessments are made as a result of an audit..., the tax refunds resulting from the incorrect assessments shall be an offset against proposed tax liabilities, including accumulated penalties and interest, resulting from escaped assessments for any tax year covered by the audit.'

Tax liabilities include the correct tax rate and applicable interest for the appropriate length of time. To accurately determine the correct tax liability, the proposed tax liabilities and the tax refund must be made in the correct year.

We recommend that the assessor process the full amount of the underassessments or overassessments by year incurred. Procedures should be developed so the tax collector will be notified that both underassessments and overassessments are being processed for the same taxpayer. This will enable the tax collector to correctly offset tax refunds against tax liabilities.

## ***Leased Equipment***

Taxpayers are asked, on the annual business property statement, to report all leased equipment. There are 749 leasing companies reporting leased equipment in San Luis Obispo County. As equipment is reported, it is reviewed by an auditor-appraiser who determines whether to assess it to the lessee or lessor.

The valuation of leased equipment sometimes involves a trade level issue. Trade level is an adjustment to reported cost, which is often necessary when leasing companies hold, for lease, equipment that they have manufactured or have been able to purchase at less than retail. We found that trade level issues are handled correctly.

The BOE's Form V-600B lists property that will not be included in the BOE's assessment of a public utility and should, therefore, be assessed by the local county assessor. It is sent to all applicable county assessors' offices. We found that the assessor is utilizing Form V-600 B.

## ***Valuation of Other Taxable Personal Property***

### **Tenant Improvements**

Tenant improvements (TI's), also called leasehold improvements, are structural or fixture improvements made to rented or leased premises, and installed and paid for by the tenant/lessee or landlord. Tenant improvements can also be the original installation of finished tenant space in a construction project, and they are often subject to periodic changes by succeeding tenants.

In our 1996 survey, we recommended that the reference to penalties be removed from the lease information letters. Another recommendation advised that supplemental assessments be timely issued for tenant improvement property. Both of these recommendations were implemented.

The business division staff appraise all TI's. The appraisal responsibilities are well defined by the *Real Property/Business Property Appraisal Responsibility Guide*. Items are identified as structures or fixtures and valued if appropriate. We found no problems with the assessor's valuation of tenant improvements.

### **Vessels/Boats**

Section 441 requires, in part, that '...each person owning taxable personal property having an aggregate cost of one hundred thousand dollars (\$100,000) or more for any assessment year shall file a signed property statement with the assessor.' The assessor properly sends business property statements to all owners of vessels with a cost of \$100,000 or more.

For the 1998-99 assessment roll, approximately 14,000 vessels were assessed. The primary sources for discovery are Department of Motor Vehicle reports, harbormaster reports, and referrals from other counties.

Assessors in California are required to annually appraise boats at market value and to assess all boats with an assessed value above \$400, unless the county has adopted a resolution exempting low-valued property above the \$400 statutory exemption allowed for boats. San Luis Obispo County has not adopted such a resolution.

When a boat is purchased or is moved into San Luis Obispo County, the assessor either appraises it at market value using the BUC, NADA, or ABOS valuation guide, or enrolls the reported purchase price if it falls within the value range. Subsequent assessments are based on the prior year's roll values adjusted by a factor taken from a staff-developed depreciation table. The depreciation schedules were derived from a study of year-to-year changes in boat values published in value guides.

In our prior survey, we agreed with the staff that a computer program could be developed to value boats in the years after the initial assessment. The program would take advantage of information already being collected and would be based on values from the boat valuation guides.

This program has been developed and implemented and works well. We do encourage the assessor to maintain his depreciation schedules by boat type and to recalculate it yearly. Updating the depreciation schedules in this manner will result in more accurate boat valuations while making the most efficient use of staff time.

### Aircraft

The San Luis Obispo County Assessor is responsible for assessing 450 general aircraft and 3 certificated aircraft. Approximately 10 aircraft qualified for the historical aircraft exemption.

### General Aircraft

The assessor relies primarily on annual lists from airport managers to discover aircraft. The assessor sends annual aircraft statements to owners of general aircraft and uses the *Aircraft Bluebook Price Digest* as its primary guide for valuing general aircraft. Published pricing information is properly adjusted for airframe hours, avionics, hours since major overhaul, and overall condition. The assessor also reduces listed retail values by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date, as advised in the BOE's Letter To Assessors (LTA) 97/03.

### Certificated Aircraft

Certificated aircraft and air taxis using airports within this state while engaged in interstate, intrastate, or foreign commerce are taxable for an allocated value of the aircraft based on time in this state, when tax situs has been established in California. Section 1152 describes the method of allocation. The allocation formula is based on air and ground time and number of arrivals and departure times. The assessor properly values certificated aircraft.

### Historical Aircraft

There were 10 historical aircraft in San Luis Obispo County for the 1998 lien date. Section 220.5 provides that aircraft of historical significance shall be exempt from taxation only if all of the conditions set forth in subsection (b) are met. One of the conditions is that the aircraft is available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year in which the exemption is claimed. The assessor requires claimants to file the BOE-approved claim form, *Aircraft of Historical Significance*, in a timely manner and verifies the 12 occasions of public display before granting the exemption.

### Annual Racehorse Tax Returns

Racehorses domiciled in California are subject to an annual tax in lieu of the ad valorem property tax. The provisions of this tax are contained in sections 5701 through 5790. Property Tax Rules 1045 and 1046 implement those statutory provisions by prescribing specific procedures and forms to be used in the administration of the annual racehorse tax.

For the 1998 lien date, the assessor complied with statutory provisions by mailing 135 *Annual Report of Boarded Racehorses* forms and the *Annual Racehorse Tax Return* to taxpayers by December 15.

## Manufactured Homes

There are over 5,000 manufactured homes in San Luis Obispo County. Most are located in 116 rental parks and are not permanently affixed to the land. The assessor's primary method of discovery is through the Department of Housing and Community Development's (HCD) listing of sales reported by dealers.

**RECOMMENDATION 15:** Classify and enroll manufactured homes as personal property.

In our prior survey, we recommended that the assessor classify and enroll manufactured homes as personal property. We examined manufactured homes located in a resident-owned park and found that the manufactured homes are still being enrolled as real property improvements on the secured roll.

Section 5801 requires that manufactured homes be classified as personal property. Improper classification of a manufactured home could result in improper tax consequences. We recommend that the assessor classify all manufactured homes as personal property.

**RECOMMENDATION 16:** Consistently consider and document the use of recognized value guides for manufactured homes.

In our prior survey, we recommended that the assessor consider the selling prices listed in recognized value guides for manufactured homes as required by section 5803. Section 5803 suggests, but does not limit, the assessor to guides such as the *Kelley Blue Book Official Manufactured Housing Guide* and the *National Automobile Dealer Association's Manufactured Housing Appraisal Guide*.

We reviewed approximately 30 manufactured home appraisal records. We discovered that in some cases the *Kelley Blue Book* was considered but not in all. Consequently, we repeat our prior recommendation.

We found that the assessor relied more on the selling prices of manufactured homes as a primary indicator of value for valuing manufactured homes in rental parks. An in-house, park-rating guide is also referred to for valuation of manufactured homes in parks. The in-house, park-rating guide rates all the parks in the county on a quality scale and establishes site value percentage adjustments based on these ratings. However, in order to ensure that site influence is not assessed, the use of value guides is appropriate.

We recommend that the appraisal staff comply with code requirements and consistently consider and document the use of a recognized value guide in the valuation of all manufactured homes.

**RECOMMENDATION 17:** Annually review manufactured homes for decline in value.

Manufactured homes are valued when there is a change in ownership or new construction. In subsequent years, the consumer price index factor (CPI) is applied to the base year value. Even though manufactured homes generally decline in value with time, the appraisal staff reappraises them only when there is new construction or change in ownership. There is no annual or periodic review of manufactured home values except if requested by the assessee.

We recommend that the assessor annually review manufactured home values and enroll the lower of factored base year value or current market value.

**RECOMMENDATION 18:** Mail a *Change in Ownership Statement* when the *Information Request for Manufactured Housing* is not returned.

When the assessor receives notification of a sale from HCD, the staff mails a document entitled *Information Request for Manufactured Housing (known as I.R.M.A.)* to the taxpayer. An entry for the date that the I.R.M.A. was mailed is entered into the computer. The file is then assigned to an appraiser who obtains the necessary sales information.

Although the assessor's I.R.M.A. form is a valuable information gathering tool, section 480(a) requires that the transferee of any manufactured home file a signed *Change in Ownership Statement (COS)* whenever there is a change in ownership. Paragraph (c) of the same section says that the COS shall include information as prescribed by the BOE, including an 'Important Notice' which relates to filing time and penalties for failure to file a COS.

We recommend that the assessor mail a COS when the I.R.M.A is not returned.

## APPENDIX

### ***A: County Property Tax Division Survey Group***

#### ***San Luis Obispo County***

***Chief, County Property Tax Division:***

Charles Knudsen

***Survey Program Director:***

Gene Palmer

Principal Property Appraiser

***Survey Team Supervisor:***

Claudia Tendal

Supervising Property Appraiser

***Survey Team Leader:***

Lisa Thompson

Senior Specialist Property Appraiser

***Survey Team:***

Lois Adams

Senior Specialist Property Appraiser

Glenn Danley

Associate Property Appraiser

Michael Hinojos

Associate Property Appraiser

Tina Krause

Assistant Property Appraiser

Beverly Morrison

Associate Property Auditor-Appraiser

Delia Garcia

Tax Technician II

***B: Relevant Statutes and Regulations*****Government Code****15640. Survey by board of county assessment procedures.**

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

**15641. Audit of Records; Appraisal Data Not Public.**

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

**15642. Research by board employees.**

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

**15643. When surveys to be made.**

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.**

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.



**15645. Survey report; final survey report; assessor's report.**

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

**15646. Copies of final survey reports to be filed with local officials.**

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

**Revenue and Taxation Code****75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) 'Actual administrative costs' includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. 'Actual administrative costs' also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
  - (2) 'Eligible county or city and county' means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
    - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
    - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
  - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define 'significant assessment problems' for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

***Title 18, California Code of Regulations*****Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
  - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
  - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.**

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
  - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
  - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
  - (1) Uniformity of treatment for all classes of property.
  - (2) Discovering and assessing newly constructed property.
  - (3) Discovering and assessing real property that has undergone a change in ownership.
  - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
  - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
  - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
  - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
  - (8) Discovering and assessing property that has suffered a decline in value.
  - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of 'significant assessment problems,' as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

## **ASSESSOR'S RESPONSE TO BOARD'S FINDINGS**

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendation in the survey report. The San Luis Obispo County Assessor's response begins on the next page.

Section 15645 also allows the Board to include in the report comments regarding the assessor's response. Our comments follow the assessor's response.

# Office of Dick Frank, County Assessor

COUNTY GOVERNMENT CENTER, ROOM 100, SAN LUIS OBISPO, CA 93408 • (805)781-5643



January 19, 2001

Richard C. Johnson, Deputy Director  
Property Taxes Department  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0062

Dear Mr. Johnson:

In accordance with Section 15645 of the California Government Code, enclosed is my response to the San Luis Obispo County Assessment Practices Survey as conducted by the State Board of Equalization. Please include my response in your final survey report.

We appreciate acknowledgment in the introduction of your report that this is our first survey prepared under your new survey format. Under this new format it appears that the number of recommendations has increased from previous surveys, but, in fact, under the new format, single recommendations have been expanded into numerous smaller recommendations and suggestions have now been included as recommendations.

Overall, the survey report reflects the excellent quality of the assessment practices in San Luis Obispo County and supports our continued efforts to provide our citizens with the best possible services.

Although we are in agreement with several of the Board's recommendations, there are others which we feel are impractical to implement. You will note in our response that some of your recommendations have already been implemented and others which are practical will be placed into effect as soon as feasible.

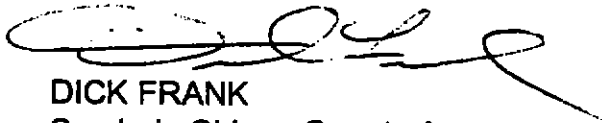
We appreciate the State Legislature providing funding through AB 818 and AB 719. These funds have enabled our office to address the majority of issues noted in your report and has increased the Assessor's ability to provide the citizens of this county with the high standard of public services for which this office is noted.

January 19, 2001

Page Two

We also wish to acknowledge Lisa Thompson and the survey team for the professional and courteous manner in which they conducted their survey.

Sincerely,

A handwritten signature in black ink, appearing to read "Dick Frank", with a long horizontal flourish extending to the right.

DICK FRANK  
San Luis Obispo County Assessor

Attachment

DF:dvm

San Luis Obispo County Assessor

Response to State Board of Equalization  
Assessment Practices Survey  
December 2000

**Recommendation 1:** Request that the County Counsel advise the Board of Supervisors to revise the county's disaster relief ordinance to reflect the current lien date.

***Response:*** *The Assessor will notify County Counsel of the incorrect date in the ordinance.*

**Recommendation 2:** Cite the caption required by Section 531.8 when providing taxpayers with a notice of proposed escape assessment.

***Response:*** *The notice will be revised to include the heading required by Section 531.8.*

**Recommendation 3:** Delete from the *Decline in Value Application* the requirement that property owners supply comparable sales information when requesting a decline-in-value review.

***Response:*** *Taxpayers are generally unfamiliar with Revenue and Taxation Code Section 51 and we have found that many of their requests for decline in value reviews have little or no practical evidence. In the past, many of them have been filed by tax agents simply hoping for a contingency fee windfall. Requesting the owners to provide us with sales or listing information, or to explain why they feel their property has declined in value eliminates many of the spurious filings. We will review our form and verbiage contained therein.*

**Recommendation 4:** Revise the wording pertaining to compatible use income on the *Williamson Act Property Agricultural Data Record*.

***Response:*** *Although we already have probably the best response to our Agricultural Data Record of any county in the state, we will expand our survey request to include your recommendation.*



**Recommendation 5:** Assess all taxable possessory interests at county fairground facilities.

**Response:** *For the past several years, we have been denied user information by fairground management. We will, however, pursue this matter more diligently and should any valid possessory interests be found, they will be reviewed and enrolled.*

*It should be noted that it appears these are extremely minor possessory interests and that the State Board for a number of years has been extremely inconsistent in recommendations concerning possessory interests. For instance, a number of possessory interests exist in numerous state and federal office buildings and parking structures in the Sacramento area and yet they are never cited. If the State becomes consistent in noting possessory interests, it would be much easier to implement the Assessor's statutory obligation. On the other hand, if all possessory interests were properly administered, the Legislature might want to visit possessory interest interpretations and legislation.*

**Recommendation 6:** Refrain from assessing agricultural possessory interest assessments on Section 11 properties in accordance with Article XIII of the California Constitution.

**Response:** *The Assessor disagrees with the State's interpretation of this code section. We believe it is special interest legislation which allows specific possessory interests to escape assessment. We will, however, discuss this matter with County Counsel.*

**Recommendation 7:** Correct the programming error in the petroleum production scheduling software.

**Response:** *Our petroleum producing properties have very low production and the factored base year values are less than the current market values, as determined by the production scheduling software. As the lesser of the two values is enrolled, the programming error did not result in any over-assessments. The program has been corrected.*

**Recommendation 8:** Assess only proven reserves.

**Response:** *We assess only the proven reserves on petroleum production properties. BOE staff discovered an error on a single assessment that we were unaware of. This assessment was corrected upon the discovery.*

**Recommendation 9:** Appropriately recognize the condition of well improvements for petroleum properties.

**Response:** *Our procedure has been revised and conforms to the recommendation.*

**Recommendation 10:** Match abandonment expenses to the life of the property.

**Response:** *Our valuation method has been revised and conforms to the recommendation.*

**Recommendation 11:** Include working capital in the cash flow of mineral property appraisals.

**Response:** *Our procedure has been revised and conforms to the recommendation.*

**Recommendation 12:** Use the BOE recommended equipment index and percent good factors without establishing an arbitrary minimum percent good.

**Response:** *Because the BOE has failed to provide assessors with guidance on appropriate minimum percent good levels, each county has been forced to develop a level that is appropriate for their area. Our 25% has been established on our analysis of equipment and machinery values in our county and is not an "arbitrary" level. To improve uniformity among counties, as of January 2001, we will be following the useful life and minimum percent good guidelines recommended by the California Assessors' Association.*

**Recommendation 13:** Assess computers using the BOE's recommended valuation factors as intended.

**Response:** *Local sales of older PC equipment indicated that the BOE's recommended minimum percent good was incorrect for our county. To improve uniformity among counties, as of January 2001, we will be following the useful life and minimum percent good guidelines as recommended by the CAA.*

**Recommendation 14:** Follow statutory requirements when enrolling escape assessments and reducing over-assessments.

**Response:** *Our current practice of netting audit escapes and refunds increases the efficiency of the property tax system. Because this method is more economical and preferred by the taxpayer, no change in procedure is contemplated. We currently enroll escaped assessments for*

*each year as they are found in the audit, but at the same time any reductions in the amount of assessments found by those audits is offset against the escapes thus providing the assessee with a net value. Instead of writing numerous revisions to the assessment roll, a single revision produces the same result. We do check tax rates to ensure that our actions do not unjustly affect the taxpayer.*

**Recommendation 15:** Classify and enroll manufactured homes as personal property.

***Response:*** *Our Auditor has requested that we do not enroll manufactured homes as personal property. This change would require major revisions to the mainframe assessment program for all of the property tax departments, and will hamper our collection and redemption efforts of manufactured home assessments. Our Auditor has installed an edit in their system to prevent special assessments from being applied to manufactured home assessments. This prevents any improper tax consequences. It should be noted that San Luis Obispo County was the first to provide manufactured homeowners the ability to pay taxes in two separate installments instead of the single installment that was required on manufactured homes when they were classified as personal property.*

**Recommendation 16:** Consistently consider and document the use of recognized value guides for manufactured homes.

***Response:*** *We have adequate and reliable market data on sales of manufactured homes in parks and, as required by Rule 4, prefer the comparative sales approach to value for these assessments. Sale prices are adjusted for site influence by use of our park-rating guide. Value guides are used if adequate information is unavailable, manufactured homes are not in parks, and as a check and balance against the comparative sales approach.*

**Recommendation 17:** Annually review manufactured homes for decline in value.

***Response:*** *Through numerous years of study, we have consistently found that manufactured homes increase and decrease in value in conjunction with the general real estate market and are therefore assessed in the same manner. We actively study manufactured homes market data and every evidence of decline in value is addressed.*

## BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Board's staff has elected to comment on the assessor's response. Our comments concern the assessor's response to Recommendation 6.

Recommendation 6: Refrain from assessing agricultural possessory interest assessments on Section 11 properties in accordance with article XIII of the California Constitution.

The assessor responds:

The Assessor disagrees with the State's interpretation of this code section. We believe it is special interest legislation which allows specific possessory interests to escape assessment. We will, however, discuss this matter with County Counsel.

As noted in the survey report, section 11(f) of Article XIII of the California Constitution provides that 'Any taxable interest of any character, *other than a lease for agricultural purposes...* in any land owned by a local government that is subject to taxation pursuant to Section 11(a) of this Article shall be taxed in the same manner as other taxable interests....' This constitutional provision clearly prohibits assessment of agricultural possessory interests in Section 11 lands.

California law provides specific instructions on how an assessor is to proceed if he or she disagrees with a provision of law. Section 538 of the Revenue and Taxation Code provides, in relevant part:

- (a) If the assessor believes that a specific provision of the Constitution of the State of California, of this division, or of a rule or regulation of the board is unconstitutional or invalid, and as a result thereof concludes that property should be assessed in a manner contrary to such provision ... the assessor shall, in lieu of making such an assessment, bring an action for declaratory relief against the board under Section 1060 of the Code of Civil Procedure....

We trust the assessor will discuss this matter with the county counsel, as indicated in his response. We also urge the assessor to follow the provisions of section 538 pending final resolution of this issue.